

SAYE - bonus rate changes

Synopsis: HMRC has updated its mechanism for calculating the bonus rates for SAYE participants. The mechanism will apply from 18 August 2023 and is expected to result in a bonus being provided to new participants for the first time since 2014.

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Savings-related schemes are comparatively simple. Basically, options are granted to the members of the scheme and the members then save up in a building society, bank or other authorised Save as You Earn (SAYE) account (subject to maximum amounts).

The member would typically agree, when they enter into the SAYE contract, when the bonus date should be and, this could be either three years or five years. The general rule is that an option may not be exercised before the bonus date or more than six months after that date.

The interest and any bonus at the end of the scheme is tax free, and the employee does not pay income tax or national insurance on the difference between what they pay for the shares and what they're worth.

Having acquired the shares, a subsequent sale by the employee could give rise to a capital gains tax (CGT) liability based on the sale proceeds less the cost of the shares when acquired by the employee, subject to the CGT annual exempt amount to the extent that it is available.

This update from HMRC follows a review launched in June 2022 to consider options to simplify the mechanism. HMRC says that it has worked with the close support of external stakeholders to develop the mechanism. The bonus rates will now be calculated with reference to the Bank of England Bank Rate (also known as the 'base rate'), providing greater certainty and transparency for users.

Details of how the bonus rate is calculated are set out in the bonus rates automatic mechanism. The new bonus rates automatic mechanism will come into effect from 18 August 2023 for new invitations to the scheme, with future changes in the Bank Rate determining bonus rates going forwards.

To support the new mechanism, HMRC will record the bonus rates, early leaver rate and the effective date of any change in Change in bonus rates for Save As You Earn (SAYE) Share Option Schemes. For now, the current rates have been provided, but HMRC is expecting to add the rate which will apply from 18 August 2023 following the confirmation of the Bank Rate in early August 2023.

HMRC has issued a new Specimen Save As You Earn (SAYE) prospectus to give effect to the mechanism. This prospectus will not require replacement to update the bonus rate in future.

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